920

Allowances

The President's budget and the Congressional budget resolution sometimes include amounts in function 920 to reflect proposals that are not clearly specified or that would affect multiple budget functions. Since the Congress actually appropriates money for specific purposes, there are no budget authority or outlay totals for function 920 in historical data. In this volume, function 920 includes options that cut across programs and agencies and would affect multiple budget functions.

920-01 Reduce the Number of Political Appointees

	Savings (Millions of dollars) Budget Authority	Outlays
Relative to Current Appropriations		
2002	n.a.	n.a.
2003	n.a.	n.a.
2004	n.a.	n.a.
2005	n.a.	n.a.
2006	n.a.	n.a.
2002-2006	n.a.	n.a.
2002-2011	n.a.	n.a.
Relative to Inflated Appropriations		
2002	60	60
2003	62	62
2004	71	70
2005	65	65
2006	69	69
2002-2006	327	326
2002-2011	708	707

NOTES: Savings are measured from the 2001 funding level adjusted for pay raises and changes in employment.

n.a. = not applicable.

SPENDING CATEGORY:

Discretionary

RELATED CBO PUBLICATION:

Comparing the Pay and Benefits of Federal and Nonfederal Executives (Memorandum), November 1999.

The term "political appointee" generally refers to employees of the federal government who are appointed by the President, some with and some without Senate confirmation, and to certain policy advisers hired at lower levels. In this option, the term refers to Cabinet secretaries, agency heads, and other Executive Schedule employees at the very top ranks of government; top managers and supervisors who are noncareer members of the Senior Executive Service; and confidential aides and policy advisers referred to as Schedule C employees. The total number of employees in such positions, according to the Congressional Budget Office's projections, will average about 2,800 over the next 10 years. If the government instead capped the number of political appointees at 2,200, savings over the 2002-2011 period would total more than $700 million. The current average salary for the political appointees most likely to be affected is $93,000, CBO estimates.

Reports from several groups, including the National Commission on the Public Service and the Twentieth Century Fund, have called for cuts in the number of political appointees. The National Commission on the Public Service, also known as the Volcker Commission, called for setting a limit similar to the one described here. In addition to the problem of excessive organizational layering, the Volcker Commission expressed concerns about many appointees' lack of expertise in government operations and programs. In political appointments, the commission asserted, political loyalties generally count more than knowledge of government. Moreover, few appointees are in office long enough to acquire the necessary skills and experience to master their job. That lack of experience, according to the commission, means that political appointees in many instances are not effective in carrying out the policies of the President they serve and can disrupt an agency's operations. As a result, career managers become frustrated and demoralized, making recruitment and retention difficult in the top ranks of the career civil service.

Critics of reducing the number of political appointees cite the importance of a President's establishing control over the government by having like-minded individuals and allies strategically situated. Those appointees, critics note, form an important link to the electorate because they help to ensure governmentwide leadership that is consistent with the philosophy of each elected President. Such appointees, moreover, can offer fresh perspectives and innovation. The high rate of turnover among appointees, critics argue, means that those officials make way for someone new before they reach the point of burnout.

920-02 Charge Federal Employees Commercial Rates for Parking

	Added Receipts (Millions of dollars)
2002	110
2003	120
2004	120
2005	120
2006	130
2002-2006	600
2002-2011	1,290

SPENDING CATEGORY:

Mandatory

RELATED CBO PUBLICATION:

Comparing Federal Employee Benefits with Those in the Private Sector (Memorandum), August 1998.

The federal government leases and owns more than 200,000 parking spaces, which it allocates to its employees—in most cases without charge. Requiring federal government employees to pay commercial rates for their parking could yield receipts of $1.3 billion over 10 years.

Federal workers in the largest metropolitan areas would bear most of the new charges. Those in the Washington, D.C., metropolitan area would pay about 75 percent of the total charge. (Federal employees in less commercially developed areas, where charging for parking is uncommon, would not face new parking charges.) Employees who continued to use federally owned or managed parking would, on average, pay about $125 per month; employees who currently use free or heavily subsidized parking could choose alternative means of transportation, such as public transportation or carpooling, to avoid the charge.

Supporters of this option favor charging commercial rates for parking because it would encourage federal employees to use public transportation or to carpool. That shift would reduce the flow of cars into urban areas, cutting down on energy consumption, air pollution, and congestion. By acting as a model employer in this regard, the federal government could more effectively call on others to reduce energy consumption and pollution. In addition, commercial pricing would indicate the demand for parking by federal workers more accurately, enabling the government to allocate spaces to those who valued them the most. Moreover, if commercial rates reduced the demand for spaces sufficiently, the government might be able to put the unused spaces to new, higher-valued uses. Finally, some observers argue that the federal government should not provide a valuable commodity, such as parking, free to workers who can afford to pay for it.

Critics of this option argue that by charging for parking, the government would unfairly penalize workers in urban areas who have difficulty obtaining access to alternative transportation or who drive to work for valid personal reasons. Charging for parking would also reduce federal employees' total compensation. In addition, critics note that many private-sector employers provide free parking. Some people also have argued that charging commercial rates would merely reration the existing spaces without reducing the number of people who drive to work. According to that view, the spaces would simply be allocated by willingness to pay rather than by rank, seniority, or other factors.

920-03 Impose a Fee on Government-Sponsored Enterprises' Investment Portfolios

	Added Receipts (Millions of dollars)
2002	936
2003	1,020
2004	1,112
2005	1,201
2006	1,297
2002-2006	5,565
2002-2011	13,430

SPENDING CATEGORY:

Mandatory

RELATED OPTION:

370-08

RELATED CBO PUBLICATIONS:

Assessing the Public Costs and Benefits of Fannie Mae and Freddie Mac (Study), May 1996.

The Federal Home Loan Banks in the Housing Finance System (Study), July 1993.

Controlling the Risks of Government-Sponsored Enterprises (Study), April 1991.

Government-sponsored enterprises (GSEs) are private financial institutions chartered by the federal government. Today, they support the flow of funds to agriculture, housing, and small business. GSEs achieve their public purposes by borrowing on the strength of an implied federal guarantee of debt obligations. Investors infer the guarantee from special provisions in GSE charters that create privileges akin to those of government agencies. Those privileges include Congressional support for the enterprises public purposes, exemption from state and local income taxes, and lines of credit with the U.S. Treasury. The implicit guarantee lowers the cost of borrowing for GSEs, thus conveying subsidies that give a competitive advantage in financial markets.

Before the 1990s, GSEs generally used the money they borrowed to make loans to, or buy loans made by, other lenders. More recently, four GSEs—Fannie Mae, Freddie Mac, Farmer Mac, and the Federal Home Loan Bank System—have used borrowed funds to acquire large portfolios of debt securities. Those investments consist mainly of mortgage-backed securities (MBSs) but also include corporate bonds, mortgage revenue bonds, and asset-backed securities. At the end of 2000, the investment portfolios of the four enterprises totaled $773 billion, or 45 percent of their combined assets. That investment activity utilizes arbitrage opportunities between the market for GSE debt and that for private securities, whereby GSEs profit from the difference in yields between private investments and their own subsidized cost of funds.

Opportunities for such arbitrage could be lessened through imposition of a fee on non-mission-related assets. A fee of 10 basis points (10 cents per $100 of investments) would provide the federal government with $936 million in savings in 2002, $5.6 billion over five years, and $13.4 billion through 2011. While such a fee would reduce the net income of the four GSEs, it would not be so large as to preclude nonmission investments. Indeed, a moderate level of non-mission investments may be necessary for maintaining sufficient liquidity. The GSEs might also try to recoup lost net income by increasing risk exposure on investments or by increasing the prices they charge for risk-management services. Each GSE, however, has a safety-and-soundness regulator that would make sure that any change in business focus would not jeopardize operations.

Proponents of imposing the fee argue that the affected GSEs could still attract equity capital and achieve their public missions with the fee. The Congress never intended the GSEs to crowd other investors out of markets for MBSs and other debt securities. The three housing GSEs could still increase their purchases of MBSs when prices fell and thereby stabilize those markets. Critics counter that greater risk taking by the four enterprises could result as alternative investments were found, which would increase the government's risk exposure. Federal risk-based capital requirements and regulatory examinations, if effective, would limit the amount of any increase in risk borne by the government from such actions. Fannie Mae and Freddie Mac conceivably could compensate for the fee by increasing interest rates on new mortgages they bought, but competition from wholly private firms and between those two GSEs would limit their ability to do so.

920-04 Repeal the Service Contract Act

	Savings (Millions of dollars) Budget Authority	Outlays
Relative to Current Appropriations		
2002	980	930
2003	980	980
2004	980	980
2005	980	980
2006	980	980
2002-2006	4,900	4,850
2002-2011	9,800	9,750
Relative to Inflated Appropriations		
2002	1,075	1,025
2003	1,100	1,100
2004	1,125	1,125
2005	1,150	1,150
2006	1,175	1,175
2002-2006	5,625	5,575
2002-2011	11,895	11,825

SPENDING CATEGORY:

Discretionary

The McNamara-O'Hara Service Contract Act of 1965 (SCA) sets basic labor standards for employees working on government contracts whose main purpose is to furnish labor, such as laundry, custodial, and guard services. A contractor covered by the law generally must provide such employees with wages and fringe benefits that at least equal those prevailing in the contractor's locality or those specified by a collective bargaining agreement of the previous contractor. The Department of Labor measures prevailing wages in an area according to the specific wages and benefits earned by at least 50 percent of workers in a particular type of job or by the average of the wages and benefits paid to workers in that type of job. The provision about collective bargaining agreements applies to successor contractors, regardless of whether their employees are covered by such an agreement.

In 2000, the SCA covered approximately 27,000 contracts valued at about $33 billion. The Department of Defense accounted for about half of that dollar value.

The cost of services procured by the federal government could be reduced by repealing the SCA. Repealing the law would save nearly $9.8 billion in discretionary outlays over the 2002-2011 period relative to current appropriations and $11.8 billion relative to current appropriations adjusted for inflation—provided that federal agencies' appropriations were lowered to reflect the anticipated reduction in costs.

Federal procurement costs would fall because repealing the SCA would promote greater competition among bidders, although the precise magnitude of the savings is difficult to estimate. Repealing the SCA would give contractors added flexibility that could allow them to reduce the costs of providing services.

Opponents of this option are concerned, however, that it would allow bidders to undermine existing collective bargaining agreements. In addition, repealing the SCA would reduce the compensation of workers in some firms that provide services to the government, which opponents argue could reduce the quality of those services.

920-05-A Repeal the Davis-Bacon Act

	Savings (Millions of dollars) Budget Authority	Outlays
Relative to Current Appropriations		
2002	610	250
2003	610	655
2004	610	900
2005	610	1,015
2006	610	1,085
2002-2006	3,050	3,905
2002-2011	6,120	9,540
Relative to Inflated Appropriations		
2002	625	255
2003	640	675
2004	650	940
2005	665	1,080
2006	680	1,170
2002-2006	3,260	4,120
2002-2011	6,860	10,535

SPENDING CATEGORY:

Discretionary

RELATED OPTION:

920-05-B

Since 1935, the Davis-Bacon Act has required that "prevailing wages" be paid on all federally funded or federally assisted construction projects with contracts of $2,000 or more. The Department of Labor measures prevailing wages in an area according to the specific wages and benefits earned by at least 50 percent of workers in a particular type of job or the average of the wages and benefits paid to workers in that type of job. Those procedures, as well as the classifications of workers who receive prevailing wages, favor union wage rates in some cases.

In 2001, approximately $67 billion in federal funds was authorized for construction projects covered by the Davis-Bacon Act. Fifty-two percent of that amount went to transportation projects, 12 percent to the Department of Housing and Urban Development and other community and regional development projects, and 12 percent to the Department of Defense. (Most of the spending authority for transportation projects is controlled by obligation limitations rather than by budget authority.)

The federal government could reduce outlays for construction by repealing the Davis-Bacon Act. Doing so would save $9.5 billion over the 2002-2011 period relative to current appropriations and $10.5 billion relative to current appropriations adjusted for inflation—provided that federal agencies' appropriations were lowered to reflect the anticipated reduction in costs. In addition, mandatory spending would fall by about $10 million in 2002 and $255 million over the 10-year period.

Repealing the Davis-Bacon Act would allow the federal government to spend less on construction, although the precise effect of repealing the law on contractors' costs is difficult to estimate. In addition, it would probably increase the opportunities for employment that federal projects would offer to less skilled workers.

Such a change would lower the earnings of some construction workers, however. In addition, opponents of this option argue that eliminating Davis-Bacon requirements could jeopardize the quality of federally funded or federally assisted construction projects. They contend that since firms are required to pay at least the locally prevailing wage, the people they hire are more likely to be able workers, resulting in fewer defects in the finished projects and more timely completion.

920-05-B Raise the Threshold for Coverage Under the Davis-Bacon Act

	Savings (Millions of dollars) Budget Authority	Outlays
Relative to Current Appropriations		
2002	105	35
2003	105	90
2004	105	125
2005	105	140
2006	105	150
2002-2006	525	540
2002-2011	1,050	1,290
Relative to Inflated Appropriations		
2002	105	35
2003	110	90
2004	110	130
2005	115	150
2006	115	160
2002-2006	555	565
2002-2011	1,240	1,425

SPENDING CATEGORY:

Discretionary

RELATED OPTION:

920-05-A

An alternative to repealing the Davis-Bacon Act (see option 920-05-A) would be to raise the threshold for determining which projects are covered by the law. In recent years, several bills have been introduced that would raise the threshold by various amounts. Increasing it from $2,000 to $1 million would save about $1.3 billion in discretionary outlays over the 2002-2011 period relative to current appropriations and $1.4 billion relative to current appropriations adjusted for inflation—provided that federal agencies' appropriations were lowered to reflect the anticipated reduction in costs. In addition, it would save $1 million in mandatory spending in 2002 and $19 million over the 10-year period. Although this option would save only about one-seventh of the amount that would be saved by repealing the Davis-Bacon Act, it would reduce firms' and the government's administrative burden by restricting coverage to the largest contracts.

As with repealing the Davis-Bacon Act, raising the threshold would allow the federal government to spend less on construction, although the precise effect of raising the threshold on contractors' costs is difficult to estimate. In addition, it would probably increase the opportunities for employment that federal projects would offer to less skilled workers.

Such a change would lower the earnings of some construction workers, however. In addition, opponents of this option argue that raising the threshold could jeopardize the quality of federally funded or federally assisted construction projects. They contend that since firms are required to pay at least the locally prevailing wage, the people they hire are more likely to be able workers, resulting in fewer defects in the finished projects and more timely completion.

920-06 Allow Federal Agencies to Bargain for Electricity

	Savings (Millions of dollars) Budget Authority	Outlays
2002	28	28
2003	93	93
2004	82	82
2005	63	63
2006	44	44
2002-2006	309	309
2002-2011	517	517

SPENDING CATEGORY:

Discretionary

RELATED OPTIONS:

050-45, 270-06, 270-07, and 270-11

RELATED CBO PUBLICATIONS:

Electric Utilities: Deregulation and Stranded Costs (Paper), October 1998.

Should the Federal Government Sell Electricity? (Study), November 1997.

The federal government spends more than $2 billion per year in the United States on electricity, of which about 50 percent is purchased through the Department of Defense. Although the government is a large consumer of electricity, it pays full retail prices. A provision in a continuing appropriation act for fiscal year 1988 (Public Law 100-202, section 8093) requires federal agencies to conform to state laws regarding electricity purchases. Some states have already allowed retail customers to choose their electricity supplier and negotiate lower prices.

This option would let the federal government realize such savings in all states, regardless of state regulations on retail customers. The resulting savings could total around $517 million over 10 years if agencies' appropriations were reduced by the expected decrease in electricity bills. (The lower savings in 2002 reflect transition costs.)

The federal government would face lower electricity prices if it purchased power on a competitive basis. In that situation, suppliers would have an incentive to provide electricity at the lowest possible cost and offer new services. Under traditional regulation, utilities generally gave customers the same product: reliable electricity at a fairly high, but uniform, price. If the federal government was allowed to negotiate for electricity, suppliers would be encouraged to furnish a greater variety of electricity services—with different prices and different degrees of reliability, depending on what the federal government needed. Some states, such as California, Massachusetts, Pennsylvania, and Rhode Island, have already introduced retail competition, allowing all retail customers—including federal agencies—to choose their electricity provider. Any reduction in federal spending because of Congressional action would have to take into account that those states already allow price competition and others will allow it before 2011.

Several bills to restructure the electricity industry were introduced in the 106th Congress. They would have allowed all customers, not just the federal government, to buy electricity in a competitive market. A comprehensive bill like one of those may be needed for the federal government to realize all of the savings from negotiating lower prices for electricity. Otherwise, an electricity provider that once served the federal government might be reluctant to lose so large a customer and could try to impede the government's choice of suppliers. (In some parts of the country, no alternative suppliers may be available.) Also, the federal government could be subject to surcharges if it broke a contract with its old supplier. Such surcharges would diminish the savings from this option. Finally, if the federal government was allowed to choose suppliers but no other retail customer was, that arrangement might be perceived as unfair: prices to other consumers could rise if the federal government chose a new supplier and the utility that once served it could not search for alternative buyers for the electricity.

920-07 Eliminate Cargo Preference

	Savings (Millions of dollars) Budget Authority	Outlays
2002	307	261
2003	377	352
2004	442	416
2005	432	422
2006	449	443
2002-2006	2,007	1,894
2002-2011	4,390	4,263

SPENDING CATEGORY:

Discretionary

The Cargo Preference Act of 1904 and other laws require that U.S.-flag vessels be used to carry certain government-owned or government-financed cargo that is shipped internationally. Eliminating that "cargo preference" would lower federal transportation costs by allowing the government to ship its cargo at the lowest available rates—saving $261 million in 2002 and a total of $4.3 billion over the next decade.

Two federal agencies—the Department of Defense (DoD) and the Department of Agriculture (USDA)—account for about 90 percent (by weight) of the government shipments subject to cargo preference laws. The preference applies to nearly all of DoD's freight and three-quarters of USDA's shipments of food aid, as well as shipments associated with programs of the Agency for International Development and the Export-Import Bank. Roughly 70 percent of the savings from eliminating cargo preference would come from defense discretionary spending, with the other 30 percent from nondefense discretionary spending.

Supporters of cargo preference argue that it promotes the economic viability of the nation's maritime industry. That industry has suffered at the hands of foreign competition in recent decades. Under federal law, U.S. mariners must crew U.S. vessels, and in general, U.S. shipyards must build them. Because U.S.-flag ships face higher labor costs and greater regulatory responsibilities than foreign-flag ships, they generally charge higher rates. Without guaranteed business from cargo preference, supporters contend, many U.S.-flag vessels engaged in international trade would leave the fleet. They would do so either by reflagging in a foreign country to save money or by decommissioning if they could not operate competitively. Supporters also argue that cargo preference helps bolster national security by ensuring that U.S.-flag vessels and U.S. crews are available during wartime. Finally, eliminating cargo preference could cause U.S. ship operators and shipbuilders to default on loans guaranteed by the government. (The possibility of such defaults is not reflected in the estimated savings from this option.)

Critics of cargo preference say it represents a subsidy of private industry by taxpayers, which simply helps a handful of carriers preserve their market share and market power. In 2000, the program cost about $700,000 per vessel for the 570 ships, barges, and tugboats benefiting from the program. Opponents also point out that even DoD officials question the national security importance of the Merchant Marine fleet. DoD has invested in a fleet of its own specifically for transporting military equipment. It also contracts with foreign-flag ships when needed. In addition, critics of cargo preference argue that the U.S. government is at a competitive disadvantage in selling surplus agricultural commodities abroad because it must pay higher costs to transport them.